AMO REPORTS 85-6

RESPONSE TO CMHC PROPOSED CHANGES TO THE RESIDENTIAL REHABILITATION ASSISTANCE PROGRAM

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO
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ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Association of Municipalities of Ontario, a non-partisan voluntary organization, is united to promote the values of the municipal government system and the status of the municipal level of government as a vital and essential component of the total intergovernmental framework of Ontario and Canada.

The Association acts as the collective voice of Ontario's municipal governments and is organized to accomplish through cooperation and coordination, what the majority have neither the time nor the resources to do individually.

The Association represents some six hundred (600) municipal governments throughout Ontario. The governing body is composed of some eighty (80) municipal elected and appointed officials, who in turn represent a wide-range of municipal government interest.

The following sections and affiliated municipal professional associations form an important part of the Association's structure and therefore, play an important part in its activities in terms of the Board of Directors, program and policy development:

Association Sections:

* County and Regional Section
* Large Urban Section
* Northern Ontario Section (FONOM/NOMA)
* Rural (ROMA) Section
* Organization of Small Urban Municipalities Section

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* Association of Municipal Clerks and Treasurers of Ontario
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* Ontario Municipal Social Services Association
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TABLE OF CONTENTS

	Page
Introduction	1
Dwelling Unit Eligibility for RRAP	1
Limitation on Eligible Repairs	2
Client Targetting - Homeowners	3
Client Targetting - Landlords	3
Minimum Contribution	4
RRAP Standards	6
Additional Comments	7
Quarterly Allocation	7
Adjusted Family Income	7
Summary of Recommendations	8
Appendix	9

AMO Report 85-6 "AMO Response to CMHC Proposed Changes to the Residential Rehabilitation Assistance Program" was submitted to the Honourable Bill McKnight, Federal Minister Responsible for Canada Mortage and Housing, and to the Honourable Alvin Curling, Ontario Minister of Housing, on August 30, 1985.

AMO RESPONSE TO CMHC PROPOSED CHANGES TO THE RESIDENTIAL REHABILITATION ASSISTANCE PROGRAM

INTRODUCTION

This report is intended to provide a municipal perspective to changes to the Residential Rehabilitation Assistance Programme (RRAP) announced by Canada Mortgage and Housing Corporation (CMHC) in March, 1985.

Originally the changes were intended for implementation April 1, 1985. Considerable concern expressed by municipalities - the primary delivery agents throughout the country, played, no doubt, a significant role in delaying implementation of any changes until January 1, 1986 thereby allowing for consultation with those who most directly implement the programme. Consequently, the original changes, as circularized, are now considered by CMHC to be a draft only and, it is to these the Association wishes to address itself.

It should be noted, in the first instance, that the Association concurs that, in times of relative fiscal constraint and, notwithstanding the considerable importance of the construction industry in any scenario dealing with economic revival, government funding and subsidies must, nevertheless, be targetted to the neediest situations; both of people and of the building environment. In this regard, the Association is in general agreement with the basic philosophy which seemingly underlies the introduction to the Consultation Paper on Housing, January 1985, Canada, appended hereto as Schedule "A". As a further consequence, our comments are directed more to the "workability" of any proposed changes.

DWELLING UNIT ELIGIBILITY FOR RRAP

CMHC Proposal: The establishment of a minimum mandatory item cost level of $1,500 as an eligibility requirement for participation in RRAP. "A property will be deemed to require 'major' repair when the total cost to repair deficiencies in one or more of the basic qualifying items equals or exceeds $1,500 based on the agent's estimate of work required."

AMO Recommends:

1. That, no minimum expenditure to repair deficiencies be introduced as a qualifying factor.

Background:

For targetting purposes, it is agreed that there should be a deficiency in one, or more of the "qualifying items", namely: plumbing, heating, electrical, structural, life safety, etc. However, in any one of these areas, experience has shown that the cost to repair could be less than the proposed minimum, one thousand five hundred dollars ($1,500.), and consequently a needy applicant facing a potentially hazardous situation (e.g., defective wiring) could be excluded from participation or cause the costs of repairs to be unnecessarily inflated.

LIMITATION ON ELIGIBLE REPAIRS

CMHC Proposal: "The Standards for Rehabilitation of Residential Buildings have been revised to ensure that the limited RRAP funds available are directed toward essential work to restore the unit to meet basic occupancy standards and durability criteria".

AMO Recommends:

2. That, in accordance with the municipal eligibility criteria pursuant to which participation in the RRAP was originally approved, the standards for the rehabilitation of residential property be those adopted by by-law, pursuant to the provisions of The Planning Act or, a private Act of the Legislature.

Background:

At the time the Residential Rehabilitation Assistance Programme was enacted as, essentially, a companion programme to the former Neighbourhood Improvement Programme (N.I.P.), it was required that those municipalities wishing to participate must adopt municipality-wide standards for the maintenance and occupancy of property and, further, agree to enforce such regulations.

Subsequently, where municipalities did not have in place, similarly-directed Acts of the Legislature or, had enacted only site-specific, "minimum standards" by-laws, regulations were adopted, nation-wide, which reflected the actual conditions existent within, and the standards of the individual communities participating in the programme. Given that conditions and/or community standards obviously vary from community to community, the effect of this original condition, and its subsequent application in determining those items eligible for repair under the RRAP, has remained unchallenged to this day.

CLIENT TARGETTING - HOMEOWNERS

CMHC Proposal: To priorize delivery on the basis of income. "Priority for RRAP must now be given to clients with adjusted family income of $13,000 or less. Criteria: $13,000 or less - 1st priority
$13,000 - $23,000 - on a residual basis

AMO Recommends:

3. That this CMHC proposal be eliminated.

Background:

The RRAP process is already targetted to those most in need through the family income/forgiveable loan provisions. (Also the existing cutoff point of $23,000 income is questionnable.) The CMHC proposal would be self defeating by limiting program take-up due to high Gross Debt Service (GDS) ratios and therefore the goal of rehabilitating the existing housing stock would not be realized.

The municipality and CMHC would also be faced with the onerous task of processing a large number of applications in the last few weeks of each year. This would of course reduce CMHC's flexibility, as CMHC would be unable to transfer funds from one municipality to another simply because commitments could not be made until late in the fiscal year. Implementation of this proposal would also mean that many of the estimates would be out of date, since the estimates normally submitted earlier in the year, would be held, pending a "need" assessment. This would also cause unnecessary increases in the overall loan cost. If estimates were not obtained until it was known that it could be processed, then in most cases, there would not be sufficient time for the owner to meet the requirements of the programme. This is especially true in large centers. It must also be remembered that there is a significant dropout rate. Therefore take-up projections would be further complicated.

A better way to accomplish directing RRAP funds to lower income clients would be through adjustments of or review of family income. (see recommendation #7)

CLIENT TARGETTING - LANDLORDS

CMHC Proposal: The establishment of rent-level eligibility guidelines for landlords. ("Maximum rentals approved after RRAP cannot exceed $575 per month (30% of $23,000)")

AMO Recommends:

4. That the targetting of the rental RRAP be addressed in terms of market conditions within Census Metropolitan Areas (CMA's).

Background:

As with housing conditions and incomes, it is not reasonable to assume that nationwide ceilings will ensure that one tenant income group is, indirectly, the beneficiary of the rental RRAP. Rents can vary considerably, on the same size unit from municipality to municipality, as can the tenants real and perceived ability to assume rental costs in excess to thirty percent (30%).

The Association is particularly concerned with the rental RRAP as it applies to the Province of Ontario. The programme is simply not meeting the needs of landlords as demonstrated by the limited take-up in a number of the major municipalities. The Association therefore requests that CMHC undertake a major overhaul of the existing rental programme.

MINIMUM CONTRIBUTION

CMHC Proposal: To require homeowners to contribute 10% of the cost of repairs for every $1,000 of income above the $13,000 level.

AMO Recommends:

5. That, the concept of a minimum contribution of ten percent (10%) of the cost of repairs for each one thousand dollars ($1,000.) the adjusted income exceeds thirteen thousand dollars ($13,000.), be deleted.

That CMHC consider implementing a procedure referred to below as the 20/20 clause.

Background:

The provision of requiring a minimum ten percent (10%) repayment will cause undue hardship to homeowners earning more than $13,000. If minimum payments must be obtained, Gross Debt Service (GDS) and Total Debt Service (TDS) will, in effect disqualify most homeowners with mortgages since they will not be able to meet CMHC's repayable guidelines, and in all probability would not be able to obtain one on the open market. Therefore, these homeowners in the "higher" income classifications face "double jeopardy", reduced grants (based on income), plus minimum repayments.

The modifications as recommended under the "targetting" section should be sufficient to impress upon the municipality the importance of targetting without penalizing the homeowners who fall within the overall aim and scope of the programme.

The Association appreciates the concerns of CMHC and understands that those who can afford to make some repayment should be doing so. To this end, it is recommended that CMHC investigate what we will refer to as the 20/20 clause. This would require every homeowner who has a Gross Debt Service (GDS) of less than 20 percent to pay at least 20 percent of the rehabilitation costs. We would further request that CMHC finance the cost of this minimum repayment under the repayable portion of the loan. We anticipate that the majority of home-owners would decide to make a cash payment rather than finance the cost, but at least the option should be made available to the homeowner.

If this procedure was adopted, it would ensure that a minimum contribution was being obtained and more importantly, would ensure that those who could afford the payment were the ones making the contribution.

Example 1

Two senior citizens earning $13,000. per year with no mortgage payments would have a GDS of 7.6 percent, assuming their taxes are $1,000 per year. A minimum repayment of 20 percent on a five thousand dollar ($5,000.) grant would result in a monthly payment of $11.89 (12-1/8 percent interest). This would increase their GDS to 8.7 percent.

Example 2

In the case of a single senior citizen receiving pension plus supplement, the GDS would be 13.3 percent assuming a similar tax payment. The yearly repayment under the RRAP would increase their GDS to 15.2 percent.

It is obvious that even homeowners on old age pension can afford to make a minimum contribution providing their home is clear of incumbrances. If on the other hand, a homeowner has a mortgage and the GDS is more than 20 percent, then the minimum repayment would not be a requirement.

It should also be noted that all applicants would be eligible for the maximum grant should the cost of repairs exceed the minimum repayment of 20 percent. The advantage of implementing the 20/20 clause is the ease of administration as the calculation would also ensure that the "working poor" are not

being unfairly burdened because their higher incomes would be offset by their higher housing costs, thus they would not be penalized by being forced to make a minimum contribution.

Another aspect of CMHC's proposal for minimal contribution which must be addressed, is the requirement that the maximum repayable RRAP loan must not exceed the forgiveable loan, based on the adjusted family income. It should be noted that if this was implemented homeowners earning more than fifteen thousand dollars ($15,000.) per year who have mortgages would not be able to participate in the programme because they would not be able to obtain the necessary financing from other sources. In most cases, their GDS would be such that a lending institution would not be willing to finance the cost of the loan. The Association objects to the implementation of this feature of the programme since owners simply would not be able to accept the financial obligations.

This feature would also make it impossible for the agent to effectively counsel the applicant since the cost of repairs would not be known until after an inspection and the estimates had been obtained. The delivery agents would have to spent numerous hours in getting an application to this stage only to find that the owner's share is prohibitive. The implementation of this proposal is impractical and should be investigated further.

RRAP STANDARDS

CMHC Proposal: Revisions to the RRAP rehabilitation standards.

AMO Recommends:

6. That the existing RRAP standards be retained.

Background:

The Association maintains that where municipal standards exist, these should be the guidelines in determining the eligibility under the Residential Rehabilitation Assistance Programme. In the event by-laws do not exist, the RRAP standards may be acceptable, but it is the opinion of the Association that the recent changes require further review. The Association feels the restrictions are too severe and in some cases, items now considered a hazard would not in the future be eligible for financing. Of particular concern were the restrictions on wall treatments and sidewalks. The proposed changes in the existing standards need further review before being implemented in municipalities without property standards by-laws.

ADDITIONAL COMMENTS

Quarterly Allocation

During the course of discussions concerning the amendments to the RRAP, several municipalities requested CMHC to review the policy of municipalities providing projections on a quarterly basis. It appears that although municipalities are presently providing the data, in actual fact, the projections are not very accurate in that it is impossible to project when applications will be finalized.

AMO Recommends:

7. That the quarterly allocation be eliminated, in view of the fact that the data is irrelevant.

It is acknowledged that the municipality must be prepared to live within the yearly allocation. We appreciate what CMHC is trying to accomplish in determining cash flow, but the method of providing this information is so inaccurate, that it is only an exercise.

Adjusted Family Income

AMO Recommends:

8. That CMHC undertake a review regarding the allowable deductions for dependants under the RRAP, as well as the deductions for single parents.

Many municipalities involved in the implementation of the programme are of the opinion that the above deductions are much too low and should be increased to reflect the actual cost of operating a home with children and/or as a single parent. This would hopefully result in a large increase in the deductions and would provide greater assistance to those homeowners who need the most assistance.

SUMMARY OF RECOMMENDATIONS

1. That, no minimum expenditure to repair deficiencies be introduced as a qualifying factor.

2. That, in accordance with the municipal eligibility criteria pursuant to which participation in the RRAP was originally approved, the standards for the rehabilitation of residential property be those adopted by by-law, pursuant to the provisions of The Planning Act or, a private Act of the Legislature.

3. That the CMHC proposal (regarding client priorizing) be eliminated.

4. That the targetting of the rental RRAP be addressed in terms of market conditions within Census Metropolitan Areas (CMA's).

5. That, the concept of a minimum contribution of ten percent (10%) of the cost of repairs for each one thousand dollars ($1,000.) the adjusted income exceeds thirteen thousand dollars ($13,000.), be deleted.

   That CMHC consider implementing a procedure referred to as the 20/20 clause.

6. That the existing RRAP standards be retained.

7. That the quarterly allocation be eliminated, in view of the fact that the data is irrelevant.

8. That CMHC undertake a review regarding the allowable deductions for dependants under the RRAP, as well as the deductions for single parents.

SCHEDULE A:

"INTRODUCTION TO THE FEDERAL CONSULTATION PAPER ON HOUSING

I INTRODUCTION

This Consultation Paper is intended to help stimulate and focus public debate on housing and, in particular, on the role of government in housing. It follows up the document entitled A New Direction for Canada: An Agenda for Economic Renewal, tabled by the Minister of Finance with the Economic Statement, and covers one of the policy areas on which the government wishes to consult with Canadians.

The government is asking for advice from a broad range of groups and individuals interested in housing. It wishes to consult on four broad issues in a range of government expenditure areas. These issues, as set out in the Economic Statement, are:

- the federal government's responsibility to put its own fiscal house in order, with discussion focussing on the growing debt problem and on ways of getting government expenditures under control;
- ways of removing obstacles to growth, with particular emphasis on the views of the private sector;
- ways of encouraging entrepreneurship and risk-taking, especially in the small and medium-sized business sector; and
- ways of targetting social support to those genuinely in need.

All of these issues are important in housing. Addressing them will require that priorities within housing be discussed and that the priority of housing relative to other government expenditures be considered. It will also require that suggestions for meeting housing priorities stand the test of being cost-effective and serving intended purposes.

The consultations on housing come at a particularly opportune time. The reasons that make this so include the following:

First, there is clearly a need for economic renewal, and the housing sector is important to the economy and quick to respond to economic changes.

Second, housing has been an important element in overall social policy, and it is important to examine this role and options for future directions.

Third, governments have been called upon to meet a number of both social and economic objectives through housing. Each of those objectives may have its own merits, but when combined, they contribute to a sense that the government role in housing is not well focussed and has disrupted the private market.

Fourth, expenditures on housing have increased significantly and are locked in well into the future, limiting the scope for new arrangements and contributing to the loss of fiscal flexibility.

Fifth, there is already a public debate as to whether federal housing assistance is directed to those most in need. This debate needs to be resolved so that certainty and clarity of direction can be provided once again.

Sixth, some have continued to suggest that there are significant opportunities for achieving greater efficiency in the delivery of housing programs through better arrangements between the federal and provincial governments.

Seventh, current projections suggest that the number of new housing units required will decline significantly over the next 10 to 15 years - in the case of new single-detached housing by 40 per cent and in the case of rental by 70 per cent - while the need for renovation, repair and conversion of the existing stock will increase. This has significant implications for the residential construction industry and for the future role that governments might play in housing.

Eighth, Canadians still have unmet housing needs. Sizable numbers of people remain unable to afford decent shelter, whether rented or owner-occupied.

At the same time, the housing industry itself has been looking for long-term programs that would provide greater stability to the housing market. The industry generally opposes government intervention and regulations which impede the normal functioning of the market. They see short-term housing measures designed primarily to serve general government objectives such as job creation and economic growth as aggravating the instability of the market and impairing industry productivity over the longer term.

All these factors combine to make it important that the government review the role it has played in housing and discuss the broad options for the role it might play in the future.

Housing is an area in which the federal, provincial and municipal governments are involved, and an important objective of the review is to develop, through consultation and dialogue, a federal-provincial relationship in housing that is more productive, positive and harmonious. This process has already begun with the meeting of federal and provincial housing ministers in early December.

Housing ministers have asked their officials to examine ways of streamlining the delivery of housing programs and to suggest better ways of co-ordinating government actions. This is an important first step by governments toward creating an environment in which the private sector can operate with greater certainty while governments discharge their social and economic responsibilities.

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